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# Minutes

## Board of Natural Resources

April 6, 2004

Natural Resources Building, Olympia, Washington

### BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols for Governor Gary Locke

Terry Bergeson, Superintendent of Public Instruction

Glen Huntingford, Commissioner, Jefferson County

Bruce Bare, Dean, University of Washington, College of Forest Resources

R. James Cook, Interim Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

### BOARD MEMBERS ABSENT

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### CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, April 6, 2004, in Room 172 of the Natural Resources Building.

### APPROVAL OF MINUTES

MOTION: Terry Bergeson moved to approve the March 2, 2004, Board of Natural Resources Minutes.

SECOND: Glen Huntingford seconded.

ACTION: Motion passed unanimously.

### PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Henry Lagergren - Public Citizen

Mr. Lagergren stated that he is a resident of Sudden Valley and would like to urge the Board to vote for the Landscape Committee's plan and for the citizen's recommendation of no oil or gas leasing in the Lake Whatcom watershed.

Vincent D'Onofrio - Elected Commissioner - Lake Whatcom Water and Sewer District/Member of Lake Whatcom Landscape Planning Committee (Handout 1)

Mr. D'Onofrio began by pointing out that thousands of rate payers in the Lake Whatcom Watershed depend on the Sewer District to protect their personal safety and the multi-million dollar infrastructure for which they paid. He stated that he along with the committee members put a lot of effort into working with DNR on developing a plan that would support trust fund recipients while protecting the drinking water. There were two areas that were not agreed upon 1) Eliminating all drilling leases for oil and gas in the watershed. 2) That the IJC be representative of the three elected bodies in the watershed and that the IJC would have the ability to stop DNR operations (on unstable slopes only). He concluded by saying that although trust income from logging is important the lives and personal safety of the Lake Whatcom residents is paramount.

Dave Scott - Sudden Valley Community Association (Handout 2)

Mr. Scott stated that he was there to represent the Sudden Valley Community Association Board of Directors and the 5,000 residents in Sudden Valley. He then brought the Board's attention to the catastrophic flooding event that happened in Whatcom County in 1983 and highlighted that the flooding was in major part attributed to logging previously done. In all, the damages and claims reached \$20 million and President Reagan declared Whatcom County a disaster area. Mr. Scott stated that DNR's fiduciary responsibility is realized but at what cost is DNR willing to pay for that mandate. He continued that although DNR has the legislative mandate, the Board does not and they should consider changing this requirement. Mr. Scott stated that in his opinion whatever plan is approved should include a strong IJC with members chosen by all entities in the Lake Whatcom Watershed and that the committee would have the ability to stop DNR harvesting if the committee felt it was not in the best interest of public safety and water quality.

Richard Gantmen - Mt. Baker School District Superintendent (Handout 3)

Mr. Gantmen stated that the Mt. Baker School District serves 2200 children and most of it is in state and federal forestland. He continued that out of all the taxing districts Mt. Baker School District is the trust land beneficiary that would experience the largest financial impact from decisions that are made regarding the landscape plan. He continued that school districts receive and are allowed to retain up to 12% of the revenue generated from timber harvest in the area; Mt. Baker receives more than ½ of that. Mr. Gantmen stated that the Mt. Baker School District taxpayers pay more than twice the tax rate in school taxes than some other Whatcom County School Districts; this is due to the relatively small amount of taxable property in the district. He continued that although most of the money that is generated from timber harvest for school districts is deducted from the general fund, the portion that the districts are allowed to keep plays an important role in offsetting debt that the taxpayer would otherwise have to pay for. This is extremely important for taxpayers in this community where much of the land is un-taxable forest, there is little industry, and the per capita income is the lowest in the county. He then pointed out that the school construction fund is critical to all school districts in the state as it provides matching funds to build schools that are much needed. Mr. Gantmen remarked that the revenue generated in the Lake Whatcom Landscape area has been critical towards educational programs including band, sports programs, and youth in government programs. To reduce this amount of revenue would reduce the educational programs for students. He concluded by asking the Board to study a financial impact statement with as much intensity as the environmental impacts have been looked at.

#### Bob Dick - American Forest Resource Council

Mr. Dick began by stating that AFRC disagrees with the proposed outcome in the Lake Whatcom Landscape plan and that management by committee does not work; that's what SEPA is for. Mr. Dick stated that Lake Whatcom watersheds have been failing and sliding for thousands of years and this landscape plan would not change it whether or not harvesting continues in the area. He remarked that the solution is to move people and infrastructures off the flood plains. He conveyed that this issue belongs in the legislature. He then stated that the 1983 landslide in the Lake Whatcom area although tragic, was a result of roads built with 1940's technology and not by logging; this fact was recognized in the timber, fish, and wildlife process in the late 80's.

#### Elaine Lynch - Senior Member School Board (Handout 4)

Ms. Lynch began with a brief description of her current position as Senior Member of the Bellingham School Board (9<sup>th</sup> year) she also served as an original member of the Lake Whatcom Watershed Advisory Committee in 1999. Her and her husband are 33-year residents of the Geneva neighborhood and were witness to the rain on snow event that occurred in 1983. She explained how 65 acres of timber debris and homes slid into Lake Whatcom and the devastation that occurred from that event. She explained that the community needs assurance from agencies and individuals that this disaster won't be repeated. Ms. Lynch stated that in her position as a School Director she is very aware of the 15,700 acres of timber in the watershed and the relationship to the common school construction fund but only needs to look out her window to see the steep slopes and remember the conflict that this presents. She continued by saying that growth is inevitable and with the lake as a reservoir for 86,000 people it's being taxed in many ways. She concluded by asking the Board to balance public safety and environmental protection with the economic obligations that elected officials have to the public trust beneficiaries. She urged the Board to support the alternative plan put forth by the citizen's committee.

#### Gordon Scott - Public Citizen

Mr. Scott started by explaining that in 1990 he was a planner for Whatcom County involved in monitoring forest practices in the watershed; stating that it was a very contentious time. He then referenced the Trillium Land Exchange indicating that the County was interested in this land exchange so that private industry would move out of the watershed with hopes that there would be a better opportunity to work on a land management plan with DNR; the county agreed to pay up to 50,000 to help cover the costs of this exchange. He then read a paragraph from the 1992 agreement, "upon consummation of an exchange agreement with Trillium Corporation the County and DNR will initiate a joint planning process to produce a formal forest management plan for public lands in the Lake Whatcom Watershed. This formal management plan will accomplish County and DNR goals including but not limited to conservation of public resources, water quality protection, the reduction of risk and liability for both parties; this joint planning process is understood by both parties to be a cooperative process which will satisfy the objectives and legal requirements of each party." Mr. Scott concluded by saying that the citizen's alternative plan comes closest to meeting the goals of the original agreement.

#### Sue Tercek - Public Citizen (Handout 5)

Ms. Tercek handed out photographs of the Lake Whatcom watershed and urged the Board to adopt the citizen's committee alternative.

#### Bruce Kraig - Public Citizen

Mr. Kraig began by pointing out that he is a 4<sup>th</sup> generation Lake Whatcom resident. He said he supports the plan put forth by the citizen's committee and urged the Board to adopt that resolution. In his opinion the plan is a compromise and a win-win situation for all. He concluded by remarking that there should be no oil and gas leasing in the watershed.

#### Mark Asmundson - Mayor of Bellingham (Handout 6)

Mr. Asmundson began by emphasizing that the Lake Whatcom watershed presents a complicated and interesting challenge for DNR, BNR and the local elected officials involved. He detailed the history of the watershed explaining that it was first an industrial area with railroad trestles, coal mining, and timber extraction. 100 years ago the first residential plats were approved in the Geneva area and that changed the use of the Lake over time. Because it has become the largest source of drinking water for Whatcom County the protection of the resources has become priority to local government and citizens. Mr. Asmundson conveyed that the City of Bellingham, Whatcom County, and the Lake Whatcom Water and Sewer District are working collaboratively to achieve this objective. He recognized that DNR has spent a tremendous amount of time, energy, and money working on a landscape plan. He continued that one of the challenges the Board faces in making decisions involving this watershed is the responsibility to maximize the yields of harvest throughout the state and the fear that a decision in one particular area may have an impact on others. Mr. Asmundson stated that as the population becomes more diverse and land uses become more complex the Board should recognize that different approaches should be applied to unique and different areas instead of a one-size fits all approach. He remarked that long-term forestry is essential in this watershed and then urged the Board to approve the resolution put forth by the Landscape Committee. He then pointed out that the Board should look at section 4 of the resolution and recommendation 22 in the FEIS and bring section 4 into closer harmony with the FEIS and the recommendations of the IJC. He stated that with collaboration between local governments and DNR this could result in an absolute win for all parties. He referenced the pipeline explosion that resulted in the death of three students several years ago in Bellingham and reminded the Board that careful and prudent long-term planning would benefit the trusts in a greater way. He stated that in his opinion the appointment of the IJC by the local governments would result in successful timber sales.

#### Pete Kremen - Whatcom County Executive (Handout 7)

Mr. Kremen pointed out the balance between fiduciary responsibility and the safety of the public. He referenced the 1983 event that affected many people and ultimately cost DNR financially due to a settlement, which at that time was the largest in Whatcom County history. He stated that the community feels fear and anxiety stemming from the 1983 event and it has changed the quality of life in Lake Whatcom. He said he was pleased that DNR and the committee reached consensus on so many points in the plan. He urged the Board to embrace the citizen's committee recommendations on oil and gas leasing and to vote for the resolution put forth by the committee.

Dr. Bergeson asked for clarification on the IJC appointments?

Mr. Kremen responded that in the FEIS there was consensus from the committee and DNR to have the City, County, and the Water District appoint the IJC members "as they see fit".

#### Senator Harriet Spanel - 40<sup>th</sup> District

Senator Spanel stated that the Lake Whatcom watershed should be treated differently as it is a drinking source. She asked the Board to support the work of the citizen's committee and to work collaboratively with the local governments, she then referenced objective 22 from the FEIS. She commented to Superintendent Bergeson that this would be a great opportunity to have collaboration and build trust with the public and local governments. She thanked the citizen's committee for their dedication and hard work on this landscape plan. She concluded by thanking the NW Region Manager Bill Wallace and Jeff May for their time and effort on this plan, as well as the time and money put into it by DNR.

Carol Johnson - NOTAC

Ms. Johnson remarked that some of the things the Board is being asked to decide on are outside of their parameters. She stated that DNR should have control over the decisions made in the Lake Whatcom watershed not a committee. She talked about the Trillium land exchange and how at the time no one came forward to purchase the properties but instead used the BNR to acquire the land and now want some ultimate control. She said that it reminds her of a similar situation in Clallam County when the Agate and Crescent Beach properties were for sale but the County did not purchase, and to this day they don't have the ownership. She urged the Board to do what's in the best interest for the entire asset held by the State and DNR for all of the citizens of Washington.

**LAND TRANSACTIONS**

Skagit Intergrant #86-074978 (Handout 8) and Skagit Trust Land Transfer #02-074915 (Handout 9)

Evert Challstedt began with a brief summary of the Trust Land Transfer Program for this biennium (Handout 8). The list was approved by the Board in 2002 and developed in 2003. Mr. Challstedt remarked that he expects these transfers to be completed by the end of the calendar year. The properties being presented today are forest board transfer trust and must be exchanged for common school trust land prior to transfer. The exchange and transfer will be presented together. Characteristics of the property to be transferred: Four properties totaling 243 acres;Skagit County Forest Board Trust; Site index: 90-130; 60-100 year Douglas fir and Hemlock; HCP designation: NRF; no legal or developed access. Characteristics of the property to be exchanged for the transfer property: Three Common School Trust parcels totaling 310 acres; Site index 90-130; 8-20 and 90-150+ year Douglas Fir and associated conifer; HCP designation: NRF; Legal and developed access. Values of the transfer and exchange properties are as shown in the following table:

Acres and Value by Trust					
Trust	Acres	Timber Volume	Timber Value	Land/Reprod Value	Total Value
Forest Board	243	11,916Mbf	\$3,993,000	\$211,500	\$4,204,500
Common School	310	11,936Mbf	\$3,944,300	\$261,100	\$4,205,400
Difference	67	20Mbf	\$48,700	\$49,600	\$900

Exchange and transfer benefits: Forest Board Trust; Gains 67 acres and \$900 in market value; Gains property with developed access. Common School Trust: Gains property situated for immediate transfer and conversion to land and timber value. Transfer Conditions: Trust retains mineral rights; Deed restriction for fish and wildlife habitat; Lands remain subject to DNR-HCP. The property will be transferred to the State Department of Fish and Wildlife.

MOTION: Glen Huntingford moved to approve Resolution #1111.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Huntingford asked if DNR would receive credit for keeping the habitat under the HCP on these lands.

Mr. Challstedt said yes.

ACTION: Motion passed unanimously.

Skagit Trust Land Transfer #02-074915 (Handout 9)

MOTION: Glen Huntingford moved to approve Resolution #1112.

SECOND: Jim Cook seconded.

ACTION: Motion passed unanimously.

Lake Cushman Intergrant Exchange #86-075457 (Handout 10) and Lake Cushman Trust Land Transfer #02-075013 (Handout 11)

Mr. Challstedt began by giving the location of the property which is west of Hoodspport in a small block of state ownership on the west side of Hood Canal in Mason County. The property consists of two 40-acre parcels adjacent to Tacoma Public Utilities ownership and will be transferred to that entity. They are CEP & RI (Corrections Educational Penal and Reformatory Institutions) Trusts so they need to be exchanged for Common School Trust to complete the transfer. Characteristics of the CEP&RI trust property: 84 acres; Land use zone: Rural residential; no legal or physical access. Characteristics of the Common School Trust property: 130 acres; Land use zone: Forestry; Legal and developed access. Values of the transfer and exchange propertie s are as shown in the following table:

Acres and Value by Trust					
Trust	Acres	Timber Volume	Timber Value	Land/Reprod Value	Total Value
CEP&RI	84	1,501Mbf	\$551,000	\$121,000	\$672,000
Common School	130	1,803Mbf	\$536,000	\$136,500	\$672,500
Difference	46	302Mbf	\$15,000	\$15,500	\$500

Exchange and transfer benefits: CEP&RI Trust gains: 46 acres and \$500 in land value; Timbered property with access; Near term timber revenues. Common School Trust Gains: Property positioned for immediate transfer at market value. Conditions of Transfer: Minerals to be reserved by respective trusts; Deed restriction: Open space or recreation for a minimum of 30 years.

MOTION: Terry Bergeson moved to approve Resolution #1113.

SECOND: Glen Huntingford seconded.

ACTION: Motion passed unanimously.

Lake Cushman Trust Land Transfer #02-075013 (Handout 11)

MOTION: Terry Bergeson moved to approve Resolution #1114.

SECOND: Glen Huntingford seconded.

ACTION: Motion passed unanimously.

Corson/WSDOT Transfer #02-076148 (Handout 12)

Howard Thronson presented and introduced Gerald Gallinger, Director of Real Estate Services, DOT. Mr. Thronson explained that DNR and DOT are working together to resolve occupancy issues in relation to highways. This property is an 11-acre parcel that was acquired in 1985 in a land exchange with King County for what is now the Castle Golf Course. This parcel is located on the corner of Corson Avenue and East Marginal Way; this property included Phoenix Gas and the Hat and Boots Gas Station. The property is located in the Duwamish Waterway, zoned industrial, and is Common School Trust land. DNR has unimpeded right of way on East Marginal Way and limited access on Corson Avenue.

Characteristics: Transfer 4 of 11 acres to WSDOT; \$3,000,000 (\$17 per sq. ft.); Land value deposited into RPRA (Real Property Replacement Account).

MOTION: Terry Bergeson moved to approve Resolution #1115.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Gallinger commented that it's been a pleasure working with Howard Thronson and his staff and looks forward to continuing the positive working relationship.

Chair Sutherland commented on the efforts of DOT and the positive working relationship that has evolved.

Mr. Nichols asked about legislation HB 3045 and how it relates to this parcel?

Mr. Thronson referenced slide 3 and commented that legislation requires DNR to do an intergrant exchange with CEP&RI (Charitable, Educational, Penal, & Reformatory Institutions) for the remaining acres 7 acres of this 11-acre parcel by December 31<sup>st</sup>, 2004. There are 70,000 CEP & RI trust acres in Washington State that need to be assessed. Upon completion of the intergrant exchange a lease will be entered into with the State Board of Community and Technical Colleges. The remaining parcel would be leased for \$1 per year and would become South Seattle Community College Duwamish Training Facility.

Dr. Bergeson thanked Howard Thronson and Brenda Hood for their work on this legislation and explaining the complexities of the trusts.

ACTION: Motion passed unanimously.

## **TIMBER SALES**

### Proposed Timber Sales for May 2004 (Handout 13)

Jon Tweedale - Product Sales Manager, gave a brief update on the March 2004 results. 12 sales offered & 11 sold; 48,032 mmbf offered & 44,412 sold; \$11,136,000 minimum bid & \$14,873,422 sold; \$335/mbf; average # of bidders 4.36.

Chair Sutherland asked about Whisky Dog Tractor sale, which was a no bid.

Mr. Tweedale responded that it was a Northeast Fire sale and due to a decrease in pine prices the bidders couldn't get on the table. The sale will be brought back this fiscal year.

Proposed May 2004 Sales: 16 sales offered; \$56 million board feet; averaging appraised price at \$292.

MOTION: Terry Bergeson moved to approve proposed May Timber Sales.

SECOND: Jim Cook seconded.

DISCUSSION: Mr. Huntingford stated that the Jefferson County Board of Commissioner's received calls from public citizens regarding the Z Harmony timber sale that will be coming up in the next month or two. Charlie Cortelyou (Olympic Region Manager, DNR) and staff met with the citizens and spent over an hour on the ground explaining how the sale was laid out and addressed the concerns of the public in that time. Mr. Huntingford commended DNR staff for their continued efforts on working with citizens and the public when issues such as this arise.

Mr. Tweedale said he would pass those remarks on to DNR staff.

ACTION: Motion passed unanimously.

## **CHAIR REPORTS**

### Transaction and Asset Performance Report (Handout 14)

Chair Sutherland informed the Board that this report would be brought before them at least once a year and possibly every six months.

Kit Metlen - Asset Management & Protection Division, presented, he began by introducing Paul Penhallegon from the Product Sales and Leasing Division. He stated that he would be giving an update on asset performance on trust uplands from three different perspectives. He began with the planning perspective and indicated that the transition lands base has changed since the 1980's. Transition lands represent the largest acreage of high value/low income properties such as the Corson Avenue parcel. Mr. Metlen referenced slide 3 (Handout 14).

#### *Asset Allocation Strategy*

- Preferred land-based portfolio optimizes income and appreciation, has low long-term risk and provides collateral public benefits
- Hold high value/high revenue properties and dispose of low value/low revenue holdings
- Seek new assets for improved returns, diversification, geographical positioning and ecological benefits
- Monitor performance and adjust plans and priorities
- Work with beneficiaries, stakeholders and partners to meet asset objectives

Mr. Metlen continued that the second perspective he would be discussing is implementation of policy level strategies and how that directs current transactions including what the results are in the first quarter of this biennium. The third being a historical aspect on lease revenue trends over the last 20 years. He then referenced slide 4 (Handout 14)

#### **1984**

- Urban 10 list approved
- 7,885 acres identified for disposal
- 46 properties

#### **2004**

- Disposal 45% complete
- 3,532 acres have been disposed
- Rest being marketed or prepared for sale

Mr. Nichols asked what the "10" referred to?

Mr. Metlen responded that it refers to parcels likely to convert to urban use in the next 10 years.



### *1988 Transition Lands Policy Plan*

#### Objectives:

–Increase value to the trust by identifying and managing transition land assets in interim uses, including leasing.

–Guide decisions to dispose of transition properties and reinvest in other trust assets.

Plan calls for stakeholder and public involvement as well as local planning consultation.

Ms. Bergeson asked if the asset allocation strategy included all the transition lands?

Mr. Metlen said that the transition lands plan addresses that one particular segment of all the properties DNR manages. He then referenced slide 6 (Handout 14)

#### *Planning Context has Changed*

- Growth Management Act adopted in 1990.

- DNR Regions have done assessments and inventories of land. Now compiling a statewide assessment and stakeholder process.

- Anticipate an increased pace for moving from low revenue producing lands to higher performing assets.

#### *Seeking Diversification and Improved Performance*

Asset Management Council guidance:

- Target returns of at least 5% across all asset classes. Some sub-classes produce higher returns.

- FY 2004 allocation strategy:

–2/3 to purchase new agricultural and commercial assets

–1/3 for asset improvement and enhancement of the existing land base.

Ms. Bergeson asked for an example of in holding and access.

Mr. Metlen explained that it reduces the cost of management. He also conveyed that nothing can be done without appropriation from the legislature. Slide 8 (Handout 14)

Appropriation for 03-05; \$36,096,000 ~ July 2003

\$9,738,203 ~ Spent or Committed July-Dec. 03

\$26,357,797 ~ Remaining Dec. 31, 03

Slide 9 (Handout 14)

#### *Transactions*

*July-December 2003*

- Completed sales/transfers: 10

- Completed purchases: 6•Cash value of sales/transfers: \$4,831,300

- Cash value of purchases: \$9,738,203

- Acres disposed: 417.37

- Acres purchased: 3,216

#### *Transactions completed*

*July – December 2003*

- All but one was a Common School transaction

- Sales and transfers of low performing assets:
  - 5 rural properties in Grant County: \$161,000
  - 1 ecological transfer: \$214,000
  - 1 urban/rural trespass resolution: \$1,100
  - 1 forested property: \$155,000
  - 1 undeveloped urban property: \$1 million
  - 1 commercial zoned transition property: \$3.3 million
- Purchases by asset class:
  - 4 agricultural properties: \$9,328,203
  - 2 forested properties: \$410,000

Mr. Metlen explained that this information shows that DNR is following the objectives of disposing of low-income property, diversifying the asset base, and enhancing current assets by removing in holdings and gaining access to properties. He then referenced slide 11 (Handout 14), which shows productivity.

Chair Sutherland asked how many staff were working on these transactions?

Mr. Metlen said approximately 10 and some of that assistance comes from the regions.

Mr. Penhallegon began with a brief description of his time with DNR and that he started in 1983 doing Oil and Gas Leases. At that time the Department made quarter million dollars on those leases and at the end of this month the agency will hold another Oil & Gas auction, which should net over a million dollars. He then referenced slide 13 in relation to the leasing revenue presentation:

#### GOAL

Show the significant increases in revenue obtained from the department's leasing activities over the last 20 years.

Show augmentation of revenue by recent acquisitions.

Slide 14 (Handout 13):

*What is the department's obligation?*

RCW 79.13.010

Lease of state land – General

(1) Subject to other provisions of this chapter and subject to rules adopted by the board, the **department may lease state lands for** purposes it deems advisable, including, but not limited to, **commercial, industrial**, residential, **agricultural**, and recreational **purposes in order to obtain a fair market rental return** to the state or the appropriate constitutional or statutory trust.

*What role does the Board play in this?*

RCW 43.30.215

#### **Powers and duties of the board.**

The board shall:

(2) Establish policies to **ensure** that the acquisition, **management**, and disposition **of all lands and resources** within the department's jurisdiction **are based on sound principles designed to achieve the maximum effective** development and **use of such lands and resources** consistent with laws applicable thereto;

Mr. Penhallegon referenced slide 16 (Handout 14) which showed a graph of the leasing revenue from 1983-2003, broken down by commercial real estate, agriculture, and misc. 1983 showed \$5.83 million;

1993 showed \$12.13 million; and 2003 showed \$20.13 million (the totals reflect the three combined categories). In 1983 the primary non-timber revenue source was agriculture; by 1993 almost half of the revenue came from commercial investments and communication sites (the communication sites are under the miscellaneous revenue). Due to asset diversification, by 2003 the categories were almost evenly split.

He then referenced slide 17 showing the miscellaneous categories which include: communication sites, special forest products, special use leasing, home site leases, mineral rights, and rights of way income.

Slide 18 showed agriculture revenue; in the last two years, added nine parcels, purchased for \$12.6 million – will increase rental income by \$0.75 million.

Slide 19 showed commercial real estate lease revenue; in last two years, added two parcels, purchased for \$18.3 million – will increase rental income by \$1.5 million.

Slide 20 showed leasing revenue; in 2003 the graph showed \$20.13 million in revenue.

He added that in the 04-05 fiscal year there would be an additional \$3 million from renegotiated leases.

Summary slide 21:

- Transition lands  
7,885 acres to 4,353 acres
- 1<sup>st</sup> Quarter Transactions  
Purchases: \$9.7 million - Sales: \$4.8 million
- Leasing trends are up
- Will report results each fiscal year

Mr. Penhallegon concluded by saying that there have been significant increases in income in the past twenty years and recent acquisitions have provided additional revenue. Excellent leasing strategies, irrigation, and transitioning natural resource properties into commercial leases have all been contributing factors to the increase in revenue. He thanked the Board and staff for their support in the leasing program and added that with their continued support the Department envisions increasing leasing revenue to 20% of all agency revenue.

Ms. Bergeson referenced slide 8 and asked for clarification on appropriations.

Mr. Metlen said it takes time, having moved a third of this property in the first quarter was phenomenal and he anticipates this rate to continue.

Mr. Bare remarked that the graphs showed great increases in revenue and wondered if the numbers were in real terms or nominal terms?

Mr. Penhallegon said they were nominal and that inflation was included in the numbers. Inflation accounts for a 184% increase over the 20-year period, but the Department achieved a 334% increase by utilizing good leasing strategies.

Mr. Bare asked if there was a graph of the 4 measures of performance?

Mr. Penhallegon answered that at this time he did not have one but it his intention to do that in the near future.

Mr. Bare remarked that the value of the asset has most likely appreciated.

Mr. Cook asked for a pie chart showing distribution of income sources for the total effort of DNR?

Mr. Penhallegon replied that those numbers are in DNR's annual report and added that forestry is approximately 80%.

Mr. Penhallegon added that wind power leasing would soon be included under the miscellaneous category.

Mr. Nichols asked if recreation and habitat are included.

Mr. Pehallegon said there are a few recreational leases but the expectation of continued free public use clash with for-profit use, and creates a challenge that the Department intends to work on over time. He mentioned that there are 130,000 acres leased to DFW at this time.

Chair Sutherland added that the Governor recently signed legislation for carbon sequestration, which would utilize resources to increase revenue.

Ms. Bergeson asked what the rate of return on timber sales is?

Mr. Hulsey responded that it's about 5%.

Glen Huntingford asked how much of the 45% disposal occurred in the last two years?

Mr. Metlen responded that in the last decade about 12,000 acres have been moved from trust ownership and 12,000 back into it.

Chair Sutherland asked how many people are on Mr. Penhallegon's staff?

Mr. Penhallegon responded with 20 agricultural staff; 4 shared commercial real estate staff; 3 FTE's in the communication site program; 3 in the miscellaneous programs; and 3 or 4 in the rights of way program.

## **BOARD DISCUSSION**

Lake Whatcom FEIS (Handout 15 ~Powerpoint) & (Handout 16~ correspondence)

Bill Wallace and Jeff May presented. Mr. Wallace began by introducing Jeff May, Project Manager for the DNR landscape plan, he is also the State Lands District Manager in the region for the North half of Northwest region including all of Whatcom County and the north half of Skagit County.

Mr. Wallace began with slide 2 which showed 15,000 acres of trust land in the Lake Whatcom watershed. State forest land is 46%, urban/residential is 31%, and private forest land is 23%.

Trust Beneficiaries:

Whatcom County Forest Board 60%; Common school 30%; WSU 4%; Skagit Forest Board 4%; and Capitol Buildings 2%.

Ms. Bergeson asked if the Trillium land exchange went into Forest Board or Common School trust?

Mr. Wallace responded that it went into both and that DNR essentially doubled its ownership in Lake Whatcom with that land exchange.

Mr. Wallace referenced slide 5:

*Planning Process*

- E2SSB 6731 Lake Whatcom Legislation (2000)
- Six public meetings
- Several committee meetings
- Preliminary Draft EIS
- Draft EIS
- EIS (January 2004)
- Board action on plan

Elements of Legislation (E2SSB 6731)

- Riparian zones for all streams
- Carefully regulate harvest and road construction on potentially unstable slopes
- Prohibit road construction on unstable slopes
- Develop sustained yield model for Lake Whatcom
- Develop road management plan
- Establish an interjurisdictional committee

Jeff May remarked that the objective in developing the preferred alternative was to balance ecological protection, revenue generation, and meeting the communities concerns regarding the watershed.

*FEIS Preferred Alternative*

- Seeks balance
- Reflects knowledge gained
- Focus:
  - Maintaining slope stability
  - Protecting water quality
  - Protecting cultural resources

*Slope Stability Strategies*

- No road construction on unstable slopes
- Carefully regulate harvest and road construction on potentially unstable slopes
- Road maintenance & abandonment within 4 years.

*Impacts to Slope Stability*

- Probability of slides or slope failures very low
- No probable significant impacts

Mr. Huntingford asked if the Department would be required to do an EIS on each individual timber sale?

Mr. May responded that this was a non-project proposal so each individual activity would be subject to SEPA review.

Ms. Bergeson asked what non-project proposal meant?

Mr. May responded that it essentially means doing analysis on a management plan. It's the planning phase of any given project but not a specific project.

Mr. Cook asked about probability of landslides without logging?

Mr. May remarked that the FEIS recognizes that there are unstable slopes in the Lake Whatcom watershed and not only have they occurred in the past but they will occur in the future. The probability of increased slides due to forest management activity is low.

Ms. Bergeson asked Mr. May to make a distinction between elements of the plan that are required by law and elements that go beyond that extent.

Mr. May referred back to slide 8 saying that the first bullet is required by legislation, the second bullet comes out of legislation as well. The time element of RMAP is not required but the Department has sped up that plan.

#### *Water Quality Strategies*

- Follow slope stability strategies
- Road maintenance & abandonment in 4 years
- 30 foot riparian buffer on Type 5 streams
- No aerial application of herbicides/fertilizer
- No surface drilling for oil or gas

Ms. Bergeson asked what comes off base by extending the buffer to Type 5 streams?

Mr. May responded that the buffer affects 100-200 acres.

#### *Water Quality Impacts*

Dept. of Ecology:

"While the DNR's "contribution to pollution in Lake Whatcom is not expected to be a significant part of the problem, your efforts to evaluate and control pollution are a good example for all jurisdictions...proper implementation and enforcement of forest practice rules should appropriately control pollution...The controls you describe for the state lands in the Lake Whatcom watershed are currently the state of the art for reducing the risk of pollutions from commercial forestland." (DEIS Appendix E)

#### *Water Quality Impacts*

Dept. of Health: Not requesting any changes beyond current regulations and legislative requirements (DEIS Appendix E)

Mr. Huntingford asked if the quotes from DOE and DOH were based on current forest practice rules and not what's being recommended to the Board today.

Mr. May responded that the letter implied that forest practices rules properly implemented would control pollution and additionally the agencies propose DNR use current practices plus the legislative requirements to ensure state of the art management.

EIS analysis:

- No probable significant impacts
- Water quality likely to improve over time

### *Cultural Resources Strategy*

Government-to-government agreements

Consultation process

Cultural resources protection

Tribal access

### *Cultural Resource Impacts*

-Most, but not all, known cultural resources protected

-Unknown or unidentified cultural resources may be impacted

Ms. Bergeson referred to objective 9 in the FEIS where the Department is working with the Lummi Tribe and asked if that was an example of collaboration?

Mr. Wallace said yes the strategies guide the interaction with tribes and outlines the consultation process. The Department at the request of Chair Sutherland has been asked to work with the Lummi Nation on a pilot project on government-to-government relationships in relation to access to cultural resources. This has taken a step to make the communication more formal and address issues sooner.

Mr. May referred to slide 16 which showed a comparison of alternatives:

### *No Action Alternative*

Leave Tree - 7%

Rotation Age - 60 years

Riparian buffer-

Type 3 - 160 ft/side

Type 4 - 100 ft/side

Type 5 - 0 ft/side

### *Preferred Alternative*

Leave Tree - 7%

Rotation age - 60 years

Riparian Buffer-

Type 3 - 160 ft/side

Type 4 - 100 ft/side

Type 5 - 33 ft/side

Ms. Bergeson stated her concern about setting a precedent in this agreement. She then asked what the cost benefit ratio was?

Mr. Wallace conveyed that in looking back through the notes and paperwork of this plan it was found that a previous committee had recommended 10-meter buffers. In development of current legislation for Lake Whatcom the 10 meter buffer was followed through from the 1999 legislation (SB5536).

Ms. Bergeson stated that the rationale was to follow the law and it's important to make that distinction.

Mr. Bare referred to page 7 of the DEIS and asked if Type 5 streams were no-cut buffers or riparian zones with some harvest allowed.

Mr. May responded that the riparian management zones for Type 1-4 are HCP, which allow some management if accompanied by a riparian strategy that the Federal Services agree upon. The Type 5 buffer is a no harvest buffer excluding road construction and yarding corridors.

Mr. May stated that under the no action alternative there would 4,317 acres in special protection and 27% of the landscape. Under the preferred alternative it would be 7,431 acres in special protection and 47% of the landscape. He then referenced slide 18 (Handout 15).

*Revenue Comparison (Millions)*

No Action Alternative

*Revenue (first two decades)*

\$35.7

*Total Revenue (200 year modeling period)*

\$337.4

Preferred Alternative

*Revenue (first two decades)*

\$31.4

*Total Revenue (200 year modeling period)*

\$177.2

% of No Action Alternative

*Revenue (first two decades)*

88%

*Total Revenue (200 year modeling period)*

53%

Mr. May then referenced slides 19-21, which showed the number of acres that would be affected by these strategies:

- No road construction on unstable slopes ~ 1400 acres
- Restricted activity on potentially unstable slopes ~ 1100 acres
- Riparian Management Zones on Type 5 streams ~ 200 acres

Mr. May remarked that under the no action alternative and the preferred alternative although there is an increase in areas protected there would still be a lot of timber available for harvest in the short-term.

Mr. Cook addressed the management cost increase and asked at what point would this be considered non-profitable to operate at this level?

Mr. Wallace responded that some costs would go up and some would stay the same. There is a certain liability and risk with owning lands in general but specifically in areas such as this. If approved the costs would be tracked to see how they balance out.

Mr. Wallace referenced slide 30 in response to Chair Sutherland's statement regarding assumed on-base acres.

Mr. Bare asked if the management costs go up would the cost be born by the forest board trust in total?



Mr. Wallace said yes there are two separate accounts, the forest development account and the Resource Management Cost Account (RMCA). If there are increased operational expenditures, which have occurred with this plan, then money is pulled from those accounts.

Mr. Bare asked if the benefits accrue for the Whatcom County residents while the costs are born by other county residents.

Mr. Wallace responded that the costs are born by the management account and so it does deplete the amount available for investment in forest board in other counties.

Ms. Bergeson asked if there had been any discussions at the time of the Trillium land exchange regarding what the trade-offs would be if the Department took on that amount of increase in land in this type of watershed?

Mr. Wallace stated that from his recollection there was no economic analysis expectation. The community wanted the lands to remain commercial rather than go to private ownership.

Ms. Bergeson remarked on the heavy development in the area.

Mr. May thanked the Lake Whatcom DNR Landscape Planning Committee for their efforts the last 4 years to come up with a plan.

He then referenced slide 23:

*DNR & Committee Consensus on Preferred Alternative*

DEIS consensus

FEIS consensus except:

- Green tree retention
- Oil & gas diagonal drilling outside of watershed
- Role of future interjurisdictional committee

Mr. May then introduced Dan McShane to represent the committee's views on those points.

Mr. McShane stated that it was a pleasure working with the Department and that concurrence was reached on almost all the points. He then referenced slide 21 regarding on-base acres. He stated that he has had conversations with private landowners in the Lake Whatcom area and in his opinion some of the access issues will be cleared up bringing more land on base.

Mr. McShane stated that under the proposed plan put forward by the committee the slope stability risk factor would be significantly reduced, while recognizing that some slides will happen no matter what type of activity there is.

He then commented that in his opinion there was good science behind the 10-meter buffers on Type 5 streams. Because the goal is to prevent phosphorus loading into the streams and lake having that buffer protects the roots and trees.

He then commented that the "fingers" (slide 30) that may be available for harvest could be difficult to access and could pose a risk due to the steep topography.

Mr. McShane addressed the three areas where the committee and DNR did not reach consensus. The committee themselves were split 50/50 on green tree retention so no recommendations were put forward.

The second was oil and gas leasing outside the watershed. He then discussed new drilling techniques that cause water quality issues and suggested they be looked at closer to ensure that water quality is not at risk. Lastly the committee felt that the IJC should have more of an authoritative role to provide protection for DNR, the public, and the water resource. He understands why DNR would not feel comfortable with a committee having authority on how to proceed. However he felt that the committee being made up of technical people is appropriate. He conveyed his support that the IJC be appointed by City of Bellingham and Whatcom County Sewer District and paid for by those entities.

Mr. Wallace responded to Mr. McShane's comments by commenting that the green tree retention is consistent with the HCP and current forestry handbook procedures. In the draft resolution DNR is proposing a two-year suspension of oil and gas leases that would provide time for any interested party to provide the Department with information so that further analysis could be done. Mr. Wallace then commented on the role of the IJC and discussions that took place with DNR and the Landscape Committee. The committee proposed to transfer DNR's decision-making authority to the IJC if a disagreement should arise regarding proposed activity. DNR felt that was incompatible with DNR's legal obligation as a trust manager and with Lake Whatcom legislation. Mr. Wallace then agreed that both parties want an IJC with technical expertise.

Ms. Bergeson clarified that DNR agreed on bullet one (appendices-83-FEIS) which details how the committee would be selected under the preferred alternative.

Mr. Wallace remarked that he added the (E2SSB 6731) for consistency.

Mr. Nichols remarked that the bill only refers to the use of the IJC for the development of the plan.

Mr. Wallace pointed out that it includes review of site-specific activities and recommendations.

Mr. Wallace referenced correspondence between the City of Bellingham and Commissioner Sutherland. On February 2 Commissioner Sutherland hosted a meeting with Whatcom County Executive, Pete Kremen, Mayor of Bellingham, Mark Asmundson, and Council Member, Dan McShane with the purpose of continuing discussions about the IJC. On February 5<sup>th</sup> Commissioner Sutherland sent a letter memorializing his interpretation of the meeting and invited a response back regarding the discussions. No comments were received back from the elected officials, Commissioner Sutherland then sent a follow up letter March 24<sup>th</sup> indicating that he'd like to move to the next step of nominating the 5 person committee and to submit their recommendations by June 2004 so that a committee would be in place if the plan were approved. Mr. Wallace then brought the Board's attention to a letter received by fax April 5<sup>th</sup> stating that although the County electeds had not rejected the proposal nor had they accepted it. Mr. Wallace stated that this caused him great concern seeing that he had been at the previous meetings and was under the assumption that things were progressing toward a positive outcome for all parties.

He then referenced slide 25:

*Lake Whatcom Landscape Plan Costs*

- Approximately \$800,000 to prepare EIS and landscape plan
- Estimate \$2 million to prepare and implement a road maintenance and abandonment plan
- Future costs to work with committee and community to implement plan: unknown

Chair Sutherland asked where the money would come from?

Mr. Wallace stated that the money would come from existing management funds (Access Road Revolving Fund, Forest Development Account as was outlined in now outdated legislative budget proviso), and timber sales.

Mr. Huntingford asked about costs and expressed concern over the impact on Counties financially. He remarked that he felt reluctant to spend any money without knowing if enough revenue could be generated to pay day-to-day operations in the watershed. He recognized the public's concern over safety and wondered how the Department is going to be able to manage this watershed and still make money for the trusts.

Mr. Hulsey referenced slide 26 (Handout15 )

*Lake Whatcom Landscape Management Pilot Project*

- Culmination of several years of work by many dedicated parties
- Interactions of forest management and
  - Water quality
  - Slope stability
  - Public safety
  - Public acceptance of forestry as a viable land use
- Much has been learned with more information needed to understand the prospective interactions of these key issues

Slide 27

*A Summary of Key Outcomes*

Cultural Resources: Identification and protection of key resources;

- Significant success in government-to-government approach;
- Forestry's contribution to water quality
- Increased protection of unstable slopes and probable reduction of risk to public safety
- Protecting water quality & public safety, with or without special legislation
- Unclear: ability to implement the Pilot Project in a manner that is acceptable to the public

Mr. Hulsey commented that he benefited immensely by working with Tom Williams from the Lummi Nation on cultural resource issues.

Slide 28

*Implementation Considerations*

- Over \$0.8 million: cost of the Pilot Project to date
- Increased understanding of landscape dynamics
  - Cost of protection compared with the environmental gains of the legislation
- Revenue reduction: \$160 million
  - Over the 200-year planning period. Compared to managing the landscape using the HCP and the Forest and Fish Forest Practices Rules
- DNR recommends adoption of the Preferred Alternative
  - Subject to the conditions of the draft resolution
- DNR will make a good faith effort to implement the Preferred Alternative
- It is uncertain how we can effectively and efficiently implement the Pilot Project
- Future additional information for decision-makers, to better identify implementation benefits and costs
  - The draft Resolution envisions a series of implementation reports

Slide 31

*The Draft Resolution*

- The Commissioner shall appoint a 5-member interjurisdictional committee
  - 3 Technical Experts: nominated by Whatcom County, Water District 10, and City of Bellingham
  - 2 members of the general public: nominated by NW Region Manager
  - Committee members shall serve at no expense to the trusts
  - Committee to evaluate planned activities against the strategies of the adopted Pilot Project
- November 2004 Report to Legislature
  - Evaluation of the legislation, detailing benefits and costs, base on what is known today
- 2005 and 2006 Reports to the Board and Legislature
  - Implementation results
- Evaluation of the long-term status of the Pilot Project

Mr. Hulsey brought the Board's attention to slide 15 from Mr. Penhallegon's earlier presentation (Handout 14) regarding the Board's role.

Mr. Hulsey agreed with the importance of access and the ability to operate in the "fingers" of land. He continued that it would be a challenge financially and geographically.

Ms. Bergeson expressed concern about the formation of the IJC and the social aspects involved in the watershed. She stated that she did not feel comfortable making a decision on this resolution and would like more time to carry on discussions. She stated that safety is of utmost importance and expressed that this is not a profitable venture for the trusts. She wondered what other alternatives the Board has if this doesn't work?

Mr. Bare expressed his concern over forestry and urbanization while fulfilling the trust mandate in this area. He suggested that DNR look into transferring these lands out to the County.

Mr. Cook talked about land use vs. trusts and agreed with Dr. Bare about a land exchange that would move this watershed out of DNR's ownership. He expressed serious concern about the risk of the watershed and risk to DNR, and also with the IJC being able to veto decisions regarding management of the lands.

Mr. Nichols stated that Mr. Wallace is a well-respected Public Servant and if he has concerns then there is a fundamental misunderstanding that needs to be resolved before the Board can move forward. This project needs to be built on trust and the resolution brought forward by DNR attempted to do that, if Mr. Wallace is not comfortable then there is a problem that needs to be resolved.

Chair Sutherland suggested setting this aside and continuing the conversations regarding the Lake Whatcom watershed.

Mr. Huntingford asked that as a Pilot Project is the Board willing to absorb the costs in doing that and is it fair and equitable to the beneficiaries? He then asked what the goals of the Board are with this watershed long-term.

Ms. Bergeson would like to see a cost benefit analysis if this project were to move forward in the future.

Mr. Nichols addressed the social circle aspect and wondered what they could do in the short-term.

Chair Sutherland suggested moving this out a few months and in the meantime he would meet with Mayor Asmundson and County Executive, Pete Kremen to clarify some of the issues that have come up. He concurred that there is no immediacy and that more discussions would be beneficial.

Mr. Huntingford thanked the citizens of Whatcom County and the committee for taking the time to listen to the Board's concerns and expressed his concern about safety and water quality and achieving the balance necessary for all parties.

Meeting adjourned at 1:36 p.m.

Approved this \_\_\_\_ day of \_\_\_\_\_, 2004

\_\_\_\_\_  
Doug Sutherland, Commissioner of Public Lands

\_\_\_\_\_  
Bob Nichols for Governor Gary Locke

\_\_\_\_\_  
Bruce Bare, Dean, University of Washington

\_\_\_\_\_  
R. James Cook, Dean, Washington State University (Interim)

\_\_\_\_\_  
Terry Bergeson, Superintendent of Public Instruction

\_\_\_\_\_  
Glen Huntingford, Commissioner, Jefferson County

Attest:

\_\_\_\_\_  
Sasha Lange, Board Coordinator